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U.S. ATTORNEY PRESENTS $9.2 MILLION CHECKS REPRESENTING CONVICTED LAWYER'S REMAINING FORFEITED ASSETS TO PA DEPARTMENT OF INSURANCE

Total Recovered Forfeiture Amount Of $16.9 Million Is Largest Ever In Eastern District Of Pennsylvania

PHILADELPHIA – Patrick L. Meehan, United States Attorney for the Eastern District of Pennsylvania, Jeffrey Lampinski, Special Agent-In-Charge of the Federal Bureau of Investigation, Philadelphia Field Office, and Gary E. Shovlin, United States Marshal for the Eastern District of Pennsylvania, announced today the largest recovery of forfeited assets in the Eastern District of Pennsylvania. The United States Attorney's Office and the F.B.I. have recouped approximately $16.9 million through criminal forfeiture proceedings brought against convicted lawyer Allen W. Stewart, a former partner in Morgan Lewis and Bockius, a nationally prominent law firm based in Philadelphia. These monies today have been paid to the Department of Insurance (PID) Liquidator's Office to help offset the funds paid by the Pennsylvania Life and Health Insurance Guaranty Association to the nearly 9,000 victims of Stewart's looting of two Pennsylvania insurance companies. PID previously received $7,692,639.47 and today will receive an additional $9,202,358.30, for a total payment of $16,894,997.77.

Stewart was convicted of 135 counts of RICO, wire and mail fraud, and money laundering after a six week trial in December, 1997 and is currently serving a 15-year prison sentence. The jury forfeited to the United States a gold coin collection, as well as fine antiques, including a grandfather clock purchased for $51,750 and a Chippendale carved and figured walnut lowboy purchased for $29,900 by Stewart at Sotheby's of New York. Also forfeited were Stewart's multi-million dollar oceanfront estate in Del Mar, California where Stewart lived with his girlfriend; Conestoga Life Assurance Company into which Stewart put millions of dollars of assets he looted from the two victim insurance companies he plundered; and millions of dollars held in investment accounts by Stewart, at times in the names of nominees. After lengthy and numerous court proceedings and appeals, all assets have now been sold at fair market value by the United States Marshals Service. As is their practice, the Marshals used high end real estate brokers to sell the real estate and Sotheby's Auction House to sell the antiques in order to insure the maximum return to the victims in this case.

"Insurance companies were collapsing, policyholders were being victimized, and the defendant was sitting in his oceanfront mansion surrounded by fine antiques," said Meehan. "We're often asked, What happens to someone's ill-gotten gain after they are caught and convicted? This case should serve notice that we work very hard to make sure that the luxuries bought and paid for by people's suffering aren't waiting for the defendant when he walks out of prison."

Stewart's complex corporate fraud involved his acquisition of two insurance companies through a leveraged buy out which caused the two companies to become insolvent. Stewart, however, through the creation of a myriad of corporations and complex transactions, and with the help of the prestige of his position as a prominent attorney in the insurance field, hid the insolvencies from the state regulators and systematically looted both companies. Ultimately, Stewart's crimes caused the insurance companies to collapse, and the Pennsylvania Department of Insurance took over the two companies and liquidated them. Stewart caused losses of more than $80 million and victimized 9,000 policyholders throughout the country.

The two insurance companies were Summit National Life Insurance Company ("Summit"), a mid-sized life insurance company, and Equitable Beneficial Life Insurance Company ("EBL"), a small, group health insurance company. In 1988, Stewart purchased Summit through a leveraged buy out. Stewart borrowed millions to buy Summit. He then took millions out of Summit, wired the money through EBL to a chain of other corporate entities he had created, and used the money to pay off the loan and the other acquisition costs – on the same day he purchased the company. To hide the fact the fact that Summit's funds paid for itself and thereby became insolvent, Stewart caused the same chain of corporate entities to generate a string of IOUs back to Summit. Each IOU was booked at full face value.

The IOUs, however, were worthless. Most of the entities in the chain were shell corporations created for the purpose of receiving and transferring funds and issuing IOUs, and did not have the ability to support the IOUs. Stewart used these IOUs to inflate Summit's and EBL's financial reports. To do this successfully from year to year, Stewart had to make it look like the IOUs were performing. He caused Summit to send money to the chain of entities, including EBL, that created the IOUs. This money was then returned back to Summit and recorded as "payments" on the IOUs, often on the same day the money was issued.

Stewart moved the IOUs among his entities like checks are moved among accounts in a check kiting scheme. Stewart restructured the corporate chains and the debt structure to create a fresh appearance for the debts from year to year. This all gave the false appearance that the IOUs were performing or that they had been replaced by something new and valuable.

No new capital was infused by Stewart to replace the lost money. Neither Summit nor EBL generated significant income, and the quality of their asset portfolios deteriorated. This made it difficult over time to keep the circular kiting system afloat. In addition, as time went by, the state insurance departments became more aggressive in monitoring Summit.

Approximately three years after he purchased Summit, Stewart decided to sell both Summit and EBL. He also decided to loot them before they were sold and he devised various schemes to do so. These included (1) the outright theft of an income source, (2) the theft of business opportunities, (3) a series of bogus loans, (4) inappropriate dividends, and (5) the pre-sale transfer of business and assets from EBL into another company Stewart acquired with Summit's money.

In mid-1993, Stewart sold Summit and EBL for virtually nothing, and had to sue the buyer to bring him to the closing table. After the sale, the new buyer and the Pennsylvania Department of Insurance discovered that the two insurance companies were insolvent.

In the meantime, Stewart, using nominees, put the millions he had looted into various banking and brokerage accounts, and spent large sums of the money to acquire, furnish and improve a multi-million dollar ocean front house in Del Mar, California for his mistress, and spent over $2 million to renovate his mansion for his wife in Radnor, Pennsylvania. He also used $2 million of the looted assets to acquire and enrich Conestoga Life Assurance Company in Broomall, Pennsylvania, which he kept for himself. The $16.9 million paid to the Pennsylvania Department of Insurance today is the net amount recovered from the sale and liquidation of the California property, the Broomall life insurance company, the accounts, gold coin collection and antiques, which were forfeited by the jury.

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